BAXTER INTERNATIONAL INC
Form DEF 14A
March 20, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.   )

Filed by the Registrant þ
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Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

BAXTER INTERNATIONAL INC.

(Name of Registrant as Specified In Its Charter)

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3) Filing Party:

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4) Date Filed:

Baxter International Inc.
One Baxter Parkway
Deerfield, Illinois 60015
847.948.2000

March 20, 2007

Dear Shareholder:

You are invited to attend our Annual Meeting of Shareholders on Tuesday, May 1, 2007, at 10:30 a.m., Central Time, at the Chicago Cultural Center, 78 East Washington Street, Chicago, Illinois. Registration will begin at 9:00 a.m., and refreshments will be served.

Details of the business to be conducted at the Annual Meeting are included in the attached Notice of Annual Meeting of Shareholders and Proxy Statement.

Whether or not you plan to attend in person, you can ensure that your shares are represented at the Annual Meeting by promptly voting and submitting your proxy by Internet or by telephone or by signing, dating and returning your proxy card in the enclosed envelope. If you attend the Annual Meeting, you may revoke your proxy and vote in person.

Very truly yours,

Robert L. Parkinson, Jr.
Chairman of the Board,
President and Chief
Executive Officer

Baxter International Inc.
One Baxter Parkway
Deerfield, Illinois 60015
847.948.2000

March 20, 2007

Notice of Annual Meeting of Shareholders

The 2007 Annual Meeting of Shareholders of Baxter International Inc. will be held at the Chicago Cultural Center, 78 East Washington Street, Chicago, Illinois, on Tuesday, May 1, 2007 at 10:30 a.m., Central Time, for the following purposes:

1. To elect four directors to hold office for a term of three years;

2. To ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm for Baxter in 2007;

3. To approve the 2007 Incentive Plan; and

4. To transact any other business that may properly come before the meeting.

Shareholders of record at the close of business on March 2, 2007 will be entitled to vote at the meeting.

By order of the Board of Directors,

David P. Scharf

Corporate Secretary

Baxter International Inc.
One Baxter Parkway
Deerfield, Illinois 60015

Proxy Statement

The accompanying proxy is solicited on behalf of the Board of Directors for use at the Annual Meeting of Shareholders to be held on Tuesday, May 1, 2007. This Proxy Statement and accompanying proxy card are being mailed to shareholders on or about March 20, 2007.

Q: Who is entitled to vote?

A: All record holders of Baxter common stock as of the close of business on March 2, 2007 are entitled to vote. On that day, approximately 649,977,887 shares were issued and outstanding. Each share is entitled to one vote on each matter presented at the Annual Meeting.

Q: How do I vote?

A: We offer our registered shareholders three ways to vote, other than by attending the Annual Meeting and voting in person:

By Internet, following the instructions on the proxy card;

By telephone, using the telephone number printed on the proxy card; or

By mail, using the enclosed proxy card and return envelope.

Q: What does it mean to vote by proxy?

A: It means that you give someone else the right to vote your shares in accordance with your instructions. In this way, you ensure that your vote will be counted even if you are unable to attend the Annual Meeting.

If you give your proxy but do not include specific instructions on how to vote, the persons named as proxies will vote your shares in the following manner:

For the election of the Board s nominees for director;

For the ratification of the appointment of PricewaterhouseCoopers LLP as Baxter s independent registered public accounting firm; and

For the approval of the 2007 Incentive Plan.

Q: What if I submit a proxy and later change my mind?

A: If you have given your proxy and later wish to revoke it, you may do so by giving written notice to the Corporate Secretary, submitting another proxy bearing a later date (in any of the permitted forms), or casting a ballot in person at the Annual Meeting.

Q: What happens if other matters are raised at the meeting?

A: If other matters are properly presented at the meeting, the persons named as proxies will have the discretion to vote on those matters for you in accordance with their best judgment. However, Baxter s Corporate Secretary has not received timely and proper notice from any shareholder of any other matter to be presented at the meeting.

Q: Who will count the votes?

A: Automatic Data Processing (ADP), will serve as proxy tabulator and count the votes.

Q: How is it determined whether a matter has been approved?

A: Assuming a quorum is present, the approval of the matters specified in the Notice of Annual Meeting will be determined as follows.

Nominees for director receiving the majority of votes cast (number of shares

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voted for a director must exceed the number of votes cast against that director) will be elected as a director; and

Each other matter requires the affirmative vote of a majority of the shares of common stock, present in person or by proxy and entitled to vote at the Annual Meeting.

Q: What constitutes a quorum?

A: A majority of the outstanding shares of common stock entitled to vote, represented at the meeting in person or by proxy, constitutes a quorum. Broker non-votes and abstentions will be counted for purposes of determining whether a quorum is present.

Q: What are broker non-votes?

A: Broker non-votes occur when nominees, such as banks and brokers holding shares on behalf of beneficial owners, do not receive voting instructions from the beneficial holders at least ten days before the meeting. If that happens, the nominees may vote those shares only on matters deemed routine by the New York Stock Exchange, such as the election of directors and the ratification of the appointment of the independent registered public accounting firm. On non-routine matters, such as approval of the 2007 Incentive Plan, nominees cannot vote unless they receive voting instructions from beneficial holders, resulting in so-called broker non-votes.

Q: What effect does an abstention have?

A: Abstentions or directions to withhold authority will have no effect on the outcome of the election of directors. Abstentions will have the same effect as a vote against any of the other matters specified in the Notice of Annual Meeting.

Q: What shares are covered by the proxy card?

A: The proxy card covers all shares held by you of record (*i.e.*, registered in your name), including those held in Baxter s Dividend Reinvestment Plan, Shared Investment Plan, executive compensation plans, Employee Stock Purchase Plan, and any shares credited to your Incentive Investment Plan (IIP) account or Puerto Rico Savings and Investment Plan account held in custody by the plan trustee.
If you hold your shares through a broker, bank or other nominee, you will receive separate instructions from your broker, bank or other nominee describing how to vote your shares.

If you are a current or former Baxter employee with shares credited to your account in the IIP or Puerto Rico Savings and Investment Plan, then your proxy card (or vote via the Internet or by telephone) will serve as voting instructions to the plan trustee. The trustee will vote your shares as you direct, except as may be required by the Employee Retirement Income Security Act (ERISA). If you fail to give instructions to the plan trustee, the trustee may vote shares credited to your account in the IIP or Puerto Rico Savings and Investment Plan at its discretion. To allow sufficient time for voting by the plan trustee, your voting instructions must be received by April 24, 2007.

Proposal 1 Election of Directors

Baxter s Board of Directors currently consists of twelve members and is divided into three classes. The directors in each class serve three-year terms. The Board has nominated the four current directors of Baxter whose terms expire at the 2007 Annual Meeting for re-election as directors.

In October 2006, the Board approved amendments to Baxter s Bylaws to require directors to be elected by the majority of the votes cast with respect to such director in uncontested elections; that is, the number of shares voted for a director must exceed the number of votes cast against that director. In a contested election (a situation in which the number of nominees exceeds the number of directors to be elected), the standard for election of directors will be a plurality of the shares represented in person or by proxy at any such meeting and entitled to vote on the election of directors. If a nominee who is serving as a director is not elected at the annual meeting, under Delaware law the director would continue to serve on the Board as a holdover director. However, under our amended Bylaws, any director who fails to be elected must offer to tender his or her resignation to the Board. The Corporate Governance Committee would then make a recommendation to the Board whether to accept or reject the resignation, or whether other action should be taken. The Board would act on the Corporate Governance Committee s recommendation and publicly disclose its decision and the rationale behind it within 90 days from the date the election results are certified. The director who tenders his or her resignation would not participate in the Board s decision.

All of the nominees have indicated their willingness to serve if elected, but if any should be unable or unwilling to stand for election, proxies may be voted for a substitute nominee designated by the Board of Directors. No nominations for directors were received from shareholders, and no other candidates are eligible for election as directors at the 2007 Annual Meeting. Unless proxy cards are otherwise marked, the persons named as proxies intend to vote the shares represented by proxy in favor of all of the Board s nominees.

Set forth below is information concerning the nominees for election as well as information concerning the current directors in each class continuing after the Annual Meeting of Shareholders. The Board of Directors recommends a vote **FOR** the election of each of the director nominees.

Nominees for Election as Directors (Term Expires 2010)

Blake E. Devitt, age 60, has served as a Director of Baxter since March 2005. Mr. Devitt retired in October 2004 from the public accounting firm of Ernst & Young LLP. During his 33-year career at Ernst & Young, Mr. Devitt held several positions, including Senior Audit Partner from 1994 to 2004 and Director, Pharmaceutical and Medical Device Industry Practice, from 2001 to October 2004.

John D. Forsyth, age 59, has served as a Director of Baxter since 2003. Mr. Forsyth has been Chairman of Wellmark Blue Cross Blue Shield, a healthcare insurance provider for residents of Iowa and South Dakota, since April 2000 and Chief Executive Officer since August 1996. Prior to that, he spent more than 25 years at the University of Michigan Health System, holding various positions including President and Chief Executive Officer.

Gail D. Fosler, age 59, has served as a Director of Baxter since 2001. Since 1989, Ms. Fosler has held several positions with The Conference Board, a global research and business membership organization. Ms. Fosler is currently Executive Vice President and Chief Economist of The Conference Board and directs its Economics Research Program, which produces economic indicators and analyses, as well as its operations outside the United States. Ms. Fosler is also a director of Caterpillar Inc.

Carole J. Shapazian, age 63, has served as a Director of Baxter since 2003. Ms. Shapazian served as Executive Vice President of Maytag Corporation, a producer of home and commercial appliances, and as President of Maytag s Home Solutions Group, from January 2000 to December 2000. Prior to that, she was Executive Vice President and Assistant Chief Operating Officer of Polaroid Corporation, a photographic equipment and supplies corporation, from 1998 to 1999. From 1997 to 1998, she served as Executive Vice President and President of Commercial Imaging for Polaroid.

Directors Continuing in Office (Term Expires 2008)

Joseph B. Martin, M.D., Ph.D., age 68, has served as a Director of Baxter since 2002. Dr. Martin has been the Dean of the Harvard Faculty of Medicine since July 1997. He was Chancellor of the University of California, San Francisco, from 1993 to 1997 and Dean of the UCSF School of Medicine from 1989 to 1993. From 1978 to 1989, he was chief of the neurology department of Massachusetts General Hospital and Professor of Neurology at Harvard Medical School. Dr. Martin also serves as a director of Cytyc Corporation and Scientific Learning Corp.

Robert L. Parkinson, Jr., age 56, is Chairman of the Board, Chief Executive Officer and President of Baxter, having served in that capacity since April 2004. Prior to joining Baxter, Mr. Parkinson was Dean of Loyola University Chicago s School of Business Administration and Graduate School of Business from 2002 to 2004. He retired from Abbott Laboratories in 2001 following a 25-year career, having served in a variety of domestic and international management and leadership positions, including as President and Chief Operating Officer. Mr. Parkinson also serves on the boards of directors of Chicago-based Northwestern Memorial Hospital and the Northwestern Memorial Foundation as well as Loyola University Chicago s Board of Trustees.

Thomas T. Stallkamp, age 60, has served as a Director of Baxter since 2000 and was appointed lead director in January 2004. Mr. Stallkamp has been an Industrial Partner in Ripplewood Holdings L.L.C., a New York private equity group, since July 2004. From 2003 to 2004, he served as Chairman of MSX International, Inc., a global provider of technology-driven engineering, business and specialized staffing services, and from 2000 to 2003, he served as Vice President and Chief Executive Officer of MSX. From 1980 to 1999, Mr. Stallkamp held various positions with DaimlerChrysler Corporation and its predecessor Chrysler Corporation, the most recent of which were Vice Chairman and President. Mr. Stallkamp also serves as a director of Asahi Tec Corporation, BorgWarner Inc. and Honsel International Technologies S.A.

Albert P.L. Stroucken, age 59, has served as a Director of Baxter since 2004. Mr. Stroucken has served as Chairman, President and Chief Executive Officer of Owens-Illinois, Inc., a glass and plastics packaging company, since December 2006 and as director since August 2005. From April 1998 to December 2006, Mr. Stroucken served as President and Chief Executive Officer of H.B. Fuller Company, a manufacturer of adhesives, sealants, coatings, paints and other specialty chemicals. Mr. Stroucken served as Chairman of the Board of H.B. Fuller Company from October 1999 to December 2006. From 1997 to 1998, he was General Manager of the Inorganics Division of Bayer AG. From 1992 to 1997, Mr. Stroucken was Executive Vice President and President of the Industrial Chemicals Division of Bayer Corporation.

Directors Continuing in Office (Term Expires 2009)

Walter E. Boomer, age 68, has served as a Director of Baxter since 1997. From 1997 until his retirement in April 2004, General Boomer served as President and Chief Executive Officer of Rogers Corporation, a manufacturer of specialty materials for targeted applications, focused on communications and computer markets. General Boomer also served as Chairman of the Board of Rogers Corporation between April 2002 and April 2004 and continues as director. From 1994 to 1996, he served as Executive Vice President of McDermott International Inc. and President of the Babcock & Wilcox Power Generation Group. In 1994, General Boomer retired as a General and Assistant Commandant of the United States Marine Corps after 34 years of service. General Boomer also serves as a director of Cytyc Corporation.

James R. Gavin III, M.D., Ph.D., age 61, has served as a Director of Baxter since 2003. Dr. Gavin has served as President and CEO of MicroIslet, Inc., a biotechnology company focused on transplantation therapy for insulin treated diabetics, since January 2006 and as a director since 2002. Dr. Gavin has served as Clinical Professor of Medicine and Senior Advisor of Health Affairs at Emory University since January 2005 and as Executive Vice President for Clinical Affairs at Healing Our Village, LLC, in Atlanta since March 2005. From July 2002 to January 2005, Dr. Gavin was President of the Morehouse School of Medicine and from 1991 to July 2002 he was Senior Science Officer at Howard Hughes Medical Institute, a nonprofit medical research organization. From 1987 to 1991, he was at the University of Oklahoma Health Sciences Center as a Professor and as Chief of the Diabetes Section and Acting Chief of the Section on Endocrinology, Metabolism and Hypertension. Dr. Gavin also serves as a director of Amylin Pharmaceuticals, Inc. and Nuvelo Inc.

Peter S. Hellman, age 57, has served as a Director of Baxter since March 2005. Mr. Hellman has served as President and Chief Financial and Administrative Officer of Nordson Corporation, a manufacturer of systems that apply adhesives, sealants and coatings during manufacturing operations, since March 2004. He plans to retire from this position during the first half of 2007. From February 2000 to March 2004, Mr. Hellman served as Executive Vice President and Chief

Financial and Administrative Officer of Nordson Corporation. From 1989 to 1999, Mr. Hellman held various positions with TRW Inc., the most recent of which were President and Chief Operating Officer. Mr. Hellman also serves as a director of Qwest Communications International Inc.

K. J. Storm, age 64, has served as a Director of Baxter since 2003. Mr. Storm is a registered accountant (the Dutch equivalent of a Certified Public Accountant) and was Chief Executive Officer of AEGON N.V., an international insurance group from 1993 until his retirement in 2002. Mr. Storm is chairman of the Supervisory Board of KLM Royal Dutch Airlines, a member of the Supervisory Board of AEGON N.V. and PON Holdings B.V. and a member of the Board of InBev S.A. and Unilever N.V. and Plc.

Board of Directors

Baxter s Board of Directors currently consists of twelve members. The Board has determined that each of the following eleven current directors satisfies Baxter s independence standards and the New York Stock Exchange s listing standards: Walter E. Boomer, Blake E. Devitt, John D. Forsyth, Gail D. Fosler, James R. Gavin III, M.D., Ph.D., Peter S. Hellman, Joseph B. Martin, M.D., Ph.D., Carole J. Shapazian, Thomas T. Stallkamp, K. J. Storm and Albert P.L. Stroucken. Please refer to the section entitled Corporate Governance Director Independence on page 8 of this Proxy Statement for a discussion of Baxter s independence standards.

During 2006, the Board held 9 meetings. All directors attended 93% or more of the aggregate meetings of the Board and Board committees on which they served. In accordance with Baxter s Corporate Governance Guidelines, which express the company s expectation that directors attend the annual meeting of shareholders, all of the company s directors attended the annual meeting of shareholders held on May 9, 2006.

Committees of the Board

The standing committees of the Board of Directors are the Audit Committee, Compensation Committee, Corporate Governance Committee, Finance Committee, and Public Policy Committee. Each committee consists solely of independent directors, as defined by the rules of the New York Stock Exchange, and is governed by a written charter. All committee charters are available on Baxter s website at www.baxter.com under Corporate Governance Board of Directors Committees of the Board and in print upon request by writing to: Corporate Secretary, Baxter International Inc., One Baxter Parkway, Deerfield, Illinois 60015.

Audit Committee

The Audit Committee is currently composed of directors Stallkamp (Chair), Devitt, Hellman, Storm and Stroucken, each of whom is independent under the rules of the New York Stock Exchange. The Board has determined that directors Stallkamp, Devitt, Hellman, Storm and Stroucken each qualify as an audit committee financial expert as defined by the rules of the Securities and Exchange Commission. The Audit Committee is primarily concerned with the integrity of Baxter s financial statements, system of internal accounting controls, the internal and external audit process, and the process for monitoring compliance with laws and regulations. Its duties include: (1) reviewing the adequacy and effectiveness of Baxter s internal control over financial reporting with management and the independent and internal auditors, and reviewing with management Baxter s disclosure controls and procedures; (2) retaining and evaluating the qualifications, independence and performance of the independent registered public accounting firm; (3) approving audit and permissible non-audit engagements to be undertaken by the independent registered public accounting firm; (4) reviewing the scope of the annual internal and external audits; (5) reviewing and discussing earnings press releases prior to their release; (6) holding separate executive sessions with the independent registered public accounting firm, the internal auditor and management; and (7) discussing guidelines and policies governing the process by which Baxter assesses and manages risk. The Audit Committee met 13 times in 2006. The Audit Committee Report appears on page 30.

Compensation Committee

The Compensation Committee is currently composed of directors Forsyth (Chair), Boomer, Shapazian and Stallkamp. The Compensation Committee exercises the authority of the Board relating to employee benefit plans and the compensation of Baxter s executives. The Compensation Committee may delegate its authority to subcommittees when appropriate. Its duties include: (1) making recommendations for consideration by the Board, in executive session, concerning the compensation of the Chief Executive Officer; (2) determining the compensation of executive officers (other than the Chief Executive Officer) and advising the Board of such determination; (3) making recommendations to the Board with respect to incentive compensation plans and equity-based plans and exercising the authority of the Board concerning benefit plans; (4) serving as the administration committee of the company s equity plans; and (5) making recommendations to the Board concerning director compensation. The Corporate Governance and Compensation Committees work together to establish a link between Mr. Parkinson s performance and decisions regarding his compensation. All compensation actions relating to Mr. Parkinson are subject to the approval of the independent directors of the Board. For a description of Mr. Parkinson s role in setting compensation for executive officers, please refer to Executive Compensation Compensation Discussion and Analysis Elements of Executive Compensation Cash Bonuses on page 12 of this Proxy Statement. The Compensation Committee met 6 times in 2006. The Compensation Committee Report appears on page 27.

Corporate Governance Committee

The Corporate Governance Committee is currently composed of directors Boomer (Chair), Devitt, Forsyth and Martin. The Corporate Governance Committee assists and advises the Board on director nominations, corporate governance and general Board organization and planning matters. Its duties include: (1) developing criteria, subject to approval by the Board, for use in evaluating and selecting candidates for election or re-election to the Board and assisting the Board in identifying and attracting qualified director candidates; (2) selecting and recommending that the Board approve the director nominees for the next annual meeting of shareholders and recommending persons to fill any vacancy on the Board; (3) determining Board committee structure and membership; (4) reviewing at least annually the adequacy of Baxter s Corporate Governance Guidelines; (5) overseeing the succession planning process for management, including the Chief Executive Officer; (6) developing and implementing an annual process for evaluating the performance of the Chief Executive Officer; and (7) developing and implementing an annual process for evaluating Board and committee performance. The Corporate Governance Committee met 4 times in 2006.

Finance Committee

The Finance Committee is currently composed of directors Storm (Chair), Fosler, Gavin, Hellman and Stroucken. The Finance Committee assists the Board in fulfilling its responsibilities in connection with the company s financial affairs. The Finance Committee reviews and, subject to the limits specified in its charter, approves or makes recommendations or reports to the Board regarding: (1) proposed financing transactions, capital expenditures, acquisitions, divestitures and other transactions; (2) dividends; (3) results of the management of pension assets; and (4) risk management relating to the company s hedging activities, use of derivative instruments and insurance coverage. The Finance Committee met 5 times in 2006.

Public Policy Committee

The Public Policy Committee is currently composed of directors Fosler (Chair), Gavin, Martin and Shapazian. The Public Policy Committee is primarily concerned with the review of the policies and practices of Baxter to ensure that they are consistent with its social responsibility to act with integrity as a global corporate citizen to employees, customers and society. Its duties include: (1) addressing the company s responsibilities with respect to the health and safety of employees, consumers and the environment; (2) overseeing, reviewing and making recommendations to the Board concerning the Corporate Responsibility

Office as set forth in the company s Global Business Practice Standards; (3) reviewing and making recommendations regarding Baxter s Quality and Regulatory programs and performance; and (4) reviewing and making recommendations on the company s Government Affairs Program, including the company s positions with respect to pending legislative and other initiatives. The Public Policy Committee met 6 times in 2006.

Corporate Governance

Director Independence

To be considered independent, the Board must affirmatively determine that a director does not have any direct or indirect material relationship with Baxter (either directly or as a partner, shareholder or officer of an organization that has a relationship with Baxter). Baxter s Corporate Governance Guidelines require that the Board be composed of a majority of directors who meet the criteria for independence established by rules of the New York Stock Exchange.

In making its independence determinations, the Board considers transactions, relationships and arrangements between Baxter and entities with which directors are associated as executive officers, directors and trustees. When these transactions, relationships and arrangements exist, they are in the ordinary course of business and are of a type customary for a global diversified company such as Baxter. More specifically, with respect to each of the three most recent fiscal years, the Board evaluated for each of directors Fosler, Hellman and Stroucken, the annual amount of purchases from the company where he or she serves as an executive officer by Baxter, and determined that the amount of purchases in each fiscal year was below two percent of the consolidated gross revenues of each of those companies during the companies last completed fiscal year. In addition, with respect to directors Gavin and Martin, the Board considered the amount of Baxter s payments to tax exempt organizations where he serves as an executive officer or trustee, and determined that Baxter s payments constituted less than two percent of the organization s annual consolidated gross revenues during the organization s last completed fiscal year.

Corporate Governance Guidelines

Baxter s Board of Directors has long adhered to corporate governance principles designed to ensure effective corporate governance. Since 1995, the Board of Directors has had in place a set of corporate governance guidelines reflecting these principles. Baxter s current Corporate Governance Guidelines cover topics including, but not limited to, director qualification standards, director responsibilities, director access to management and independent advisors, director compensation, director orientation and continuing education, succession planning and the annual evaluations of the Board and its committees. Baxter s Corporate Governance Guidelines are available on Baxter s website at www.baxter.com under Corporate Governance Guidelines and in print upon request by writing to: Corporate Secretary, Baxter International Inc., One Baxter Parkway, Deerfield, Illinois 60015.

Global Business Practice Standards

Baxter has adopted a code of business conduct and ethics, called the Global Business Practice Standards, that applies to all members of Baxter s Board of Directors and all employees of the company, including the Chief Executive Officer, Chief Financial Officer, Controller and other senior financial officers. Any amendment to, or waiver from, a provision of its Global Business Practice Standards that applies to Baxter s Chief Executive Officer, Chief Financial Officer, Controller or persons performing similar functions will be disclosed on the company s website, at www.baxter.com under Corporate Governance. Baxter s Global Business Practice Standards are available on Baxter s website at www.baxter.com under Corporate Governance Business Practices and in print upon request by writing to: Business Practices, Baxter International Inc., One Baxter Parkway, Deerfield, Illinois 60015.

Executive Sessions

The non-employee directors of the Board met in executive session without management at every regularly scheduled meeting during 2006 pursuant to Baxter s Corporate Governance Guidelines. The Audit Committee is required by its charter to hold separate sessions during at least five committee meetings with each of the internal auditor, the independent auditor and management. The Corporate Governance and Compensation Committees also meet in executive session as deemed appropriate.

Lead Director

Baxter s lead director is currently Thomas T. Stallkamp. Pursuant to Baxter s Corporate Governance Guidelines, Mr. Stallkamp presides at all executive sessions of the Board and acts as the liaison between the non-management directors and the Chairman of the Board. In addition, the lead director serves as the contact person to facilitate communications by Baxter employees and shareholders directly with the non-management members of the Board. The Corporate Governance Committee recommends a lead director to the full Board for approval on an annual basis.

Communicating with the Board of Directors

Shareholders and other interested parties may contact any of Baxter s directors, including the lead director or the non-management directors as a group, by writing a letter to Baxter Director c/o Corporate Secretary, Baxter International Inc., One Baxter Parkway, Deerfield, Illinois 60015 or by sending an e-mail to boardofdirectors@baxter.com. Baxter s Corporate Secretary will forward communications from shareholders and other interested parties directly to the lead director, unless a different director is specified.

Nomination of Directors

It is the policy of the Corporate Governance Committee to consider candidates for director recommended by shareholders, members of the Board and management. The Corporate Governance Committee also considers directors recommended by the independent search firm retained by the Board to help identify and evaluate potential director nominees. The Corporate Governance Committee evaluates all candidates for director in the same manner regardless of the source of the recommendation. Shareholder recommendations for candidates for director should be sent to the Corporate Governance Committee, c/o Corporate Secretary, Baxter International Inc., One Baxter Parkway, Deerfield, Illinois 60015.

Pursuant to Baxter s Corporate Governance Guidelines, nominees for director must:

- Possess fundamental qualities of intelligence, honesty, perceptiveness, good judgment, maturity, high ethics and standards, integrity, fairness and responsibility.
- Have a genuine interest in the company and recognition that as a member of the Board, each director is accountable to all shareholders of the company, not to any particular interest group.
- Have a background that demonstrates an understanding of business and financial affairs and the complexities of a large, multifaceted, global business, governmental or educational organization.
- Be or have been in a senior position in a complex organization such as a corporation, university or major unit of government or a large not-for-profit institution.
- Have no conflict of interest or legal impediment that would interfere with the duty of loyalty owed to the company and its shareholders.
- Have the ability and be willing to spend the time required to function effectively as a director.
- Be compatible and able to work well with other Directors and executives in a team effort with a view to a long-term relationship with the company as a director.
- Have independent opinions and be willing to state them in a constructive manner.

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The Corporate Governance Guidelines also provide that directors are selected on the basis of talent and experience. Diversity of background, including diversity of gender, race, ethnic or national origin, age, and experience in business, government and education and in healthcare, science, technology and other areas relevant to the company s activities are factors in the selection process. As a majority of the Board must consist of individuals who are independent, a nominee s ability to meet the independence criteria established by the New York Stock Exchange is also a factor in the nominee selection process.

Once a candidate has been identified, the Corporate Governance Committee may collect and review publicly available information regarding the person to assess whether the person should be considered further. If the Corporate Governance Committee or its Chair determines that the candidate warrants further consideration, the Corporate Governance Committee and the external search firm retained by the Committee will engage in a process that includes a thorough investigation of the candidate, an examination of his or her business background and education, research on the individual s accomplishments and qualifications, an in-person interview and extensive reference checking. If this process generates a positive indication, the lead director, the members of the Committee and the Chairman of the Board will meet separately with the candidate and then confer with each other regarding their respective impressions of the candidate. If the individual was positively received, the Committee will then recommend the individual to the full Board for election. If the full Board agrees, the Chairman of the Board is then authorized to extend an offer to the individual candidate.

Executive Compensation

Compensation Discussion and Analysis

The purpose of this section of the Proxy Statement is to provide investors and other users with necessary information to gain an understanding of Baxter s compensation policies and decisions regarding its named executive officers.

Objectives of Baxter s Compensation Program

The Compensation Committee of the Board of Directors (for purposes of this analysis, the Committee) is responsible for recommending to the Board compensation for the Chief Executive Officer and for determining the compensation of the other named executive officers. The Committee acts pursuant to a charter that has been approved by the Board.

The Committee bases its compensation policies and decisions on the following principles.

- Compensation should be structured to allow Baxter to motivate, retain and attract executive talent.

- Compensation should be directly linked to company and individual performance as well as level of responsibility. As an executive officer s level of responsibility increases so should the amount of such officer s at-risk compensation.

- Compensation should be driven by the long-term financial performance of the company and in doing so work to align the interests of management and shareholders.

- Compensation should reflect the value of each officer s position in the marketplace and within the company.

Policies and Practices Related to Baxter s Compensation Program

Baxter strives to create an overall compensation package for each named executive officer that satisfies these objectives, recognizing that certain elements of compensation are better suited to reflect different compensation objectives. For example, as base salaries are the only element of compensation that is fixed in amount in advance of the year in which the compensation will be earned, the Committee believes that it is most appropriate to determine base salaries with a focus on the market practices for similarly situated officers at comparable companies as adjusted to reflect the individual officer s performance during the preceding year. In contrast, cash bonuses and long-term incentives are better able to reflect Baxter s performance as measured by financial metrics and are well-suited to motivate officers to achieve specific performance goals that the Committee and management have determined are in the best interest of the company. Equity grants are also well-suited to drive long-term performance and align management s interests with those of shareholders. As discussed below, the Committee uses these incentives in various proportions and at varying levels relative to the market in order to motivate desired performance. The Committee shares the view that as an officer s responsibility increases so does his or her ability to influence the performance of the company and accordingly, the proportion of his or her compensation that consists of his or her salary and cash bonus should decrease while the proportion of equity incentives to total compensation should increase.

Benchmarking. As discussed below, the Committee establishes cash bonuses and long-term incentives to be competitive with the 60th percentile of the comparable companies identified below. The Committee believes that this market positioning is consistent with its goal of attracting and retaining talent and appropriately reflects the risk and leverage of the design of the plans pursuant to which such awards are made. In contrast, the Committee establishes base salaries to be competitive with the 50th percentile of comparable companies. The Committee believes that the 50th percentile is the appropriate market positioning for base salaries in light of the risk associated with this element of compensation and is consistent with providing compensation that is competitive with Baxter s peers.

Comparable Companies. In making compensation decisions, including assessing the competitiveness of the total compensation structure for each named executive officer, the Committee considers compensation survey data from companies that the Committee has selected as comparable companies (comparable companies or the comparator group). The Committee periodically reviews the companies that are included as comparable companies and makes revisions to the group as appropriate. In October 2006 and with the assistance of its compensation consultant, the Committee revised the comparable companies to include general industry peers (i.e., companies with $5 to $15 billion of annual revenues) and selected healthcare peers. These selected healthcare peers generally include all of the companies in the Standard & Poor s 500 Health Care Index except for distribution companies, insurance providers, hospitals, nursing homes and consultants and pure drug discovery and development companies. The comparator group is comprised of approximately 135 companies, of which approximately 35 are healthcare companies. Prior to that time, the comparable companies included selected companies in the pharmaceutical, medical device, and biotech industries included in the Standard & Poor s 500 Health Care Index, as well as other large non-healthcare companies of similar size and scope.

Use of Compensation Consultant. The Compensation Committee has directly engaged George B. Paulin, Chairman and Chief Executive Officer of Frederic W. Cook & Co., Inc. as its compensation consultant. Mr. Paulin reports directly to the Committee and is responsible for reviewing Committee materials, attending Committee meetings, assisting the Committee with program design and generally providing advice and counsel to the Committee as compensation issues arise. The Committee also looks to Mr. Paulin for assistance in determining the competitiveness of Baxter s total compensation structure. From time to time, Hewitt Associates assists the Committee with the compilation of market data.

Tally Sheets. In setting compensation for each of the named executive officers, the Committee reviews the total annual compensation received by each such officer, including base salary, cash bonuses, long-term incentives, perquisites and post-employment obligations in establishing each element of compensation. The Committee uses Tally Sheets for each of the named executive officers to facilitate this review.

Stock Ownership Guidelines. The Committee recognizes the importance of equity ownership in the alignment of shareholder and management interests. Accordingly, Baxter s stock ownership guidelines provide that the Chief Executive Officer is required to achieve ownership of Baxter common stock valued at six times annual base salary, while the multiple for Baxter s other executive officers is four times annual base salary. All executive officers are expected to satisfy their respective guidelines within five years of becoming an executive officer. As of December 31, 2006, Mr. Parkinson, Mr. Davis, Ms. Amundson, Mr. Arduini and Mr. Greisch were at approximately 142%, 43%, 138%, 104%, and 147% of their respective stock ownership goals. Mr. Davis became an executive officer in May 2006 and is on track to meet his stock ownership requirement within the applicable five-year period.

Equity Grant Practices. The exercise price of each stock option awarded to our executive officers under our incentive compensation programs is the closing price of our common stock on the date of grant, which is the date when the Compensation Committee acts to approve equity awards for senior executives. Performance-based equity awards are also granted to our named executive officers at this time. The date that the Compensation Committee approves these equity awards is scheduled in advance and is based on the timing of the completion of annual performance reviews and the internal compensation review process.

Elements of Executive Compensation

Baxter s compensation program for its named executive officers consists of the following components:

Base Salaries

The Committee establishes base salaries each year based on each officer s individual performance within a structure intended to be competitive with the 50th percentile of salaries paid to officers of the comparable companies. At its February 2006 meeting, the Committee reviewed market data provided by Hewitt Associates that indicated that the 50th percentile salary for the position of Chairman and Chief Executive Officer at the comparable companies was $1,198,300 and that the general market salary increase for executives for 2006 was estimated to be 3.7%. In addition to this market data, the Committee discussed and reviewed the individual performances of each of the executive officers. In particular, the Committee reflected on how each individual contributed to improving the financial position of the company as well as its overall organizational development. Based on all of these factors, in February 2006, the Board increased Mr. Parkinson s salary from $1,140,000 to $1,200,000, a 5.3% increase, and approved salary increases for Mr. Davis, Ms. Amundson, Mr. Arduini and Mr. Greisch that represented increases of 5.3%, 2.5%, 7.1% and 10%, respectively. On May 17, 2006, Mr. Davis was elevated to the role of Chief Financial Officer of the company. In order to reflect this change in responsibilities, the Committee increased Mr. Davis s salary from $300,000 to $400,000 effective as of such date. The Committee set Mr. Davis s initial salary below the 50th percentile of salaries paid to Chief Financial Officers at comparable companies to reflect the fact that he is new to this role.

Cash Bonuses

Cash bonuses are intended to provide officers with an opportunity to receive additional cash compensation through the achievement of specified company and individual performance goals. Cash bonuses earned for 2006 performance are shown in the column entitled Non-Equity Incentive Plan Compensation in the Summary Compensation Table. Cash bonus targets for 2006 were intended to be competitive with the 60th percentile of cash bonus targets for officers at the comparable companies subject to adjustments where appropriate. For example, officers who are new in their roles generally have a target below the 60th percentile. The cash bonuses that are awarded to named executive officers are determined by (i) individual bonus targets, (ii) the funding of Baxter s Management Incentive Compensation Program (MICP) and (iii) an assessment of each officer s individual performance. The Committee establishes annual bonus targets for each officer by utilizing market data from the comparable companies. These targets are typically set at the February meeting of the Compensation Committee (or the Board in the case of Mr. Parkinson). The funding of Baxter s MICP is based on the company s achievement of certain predetermined annual performance goals. After year-end results are reported, the Committee determines each officer s bonus based on an assessment of the officer s individual performance. Individual performance is measured by the officer s performance compared to the goals and objectives set by the executive at the beginning of the year. Using these measurements, adjustments are made to each officer s compensation that differentiate individual compensation based on relative performance.

For 2006, the Committee selected earnings per share, sales and return on invested capital as the performance measures on which to base the company s performance under the MICP. The relative weight assigned to each of these measures was 50%, 25%, and 25%, respectively. As Baxter met its sales target and exceeded its earnings per share and return on invested capital targets for 2006 by 5.7% and 14.7%, respectively, the Committee approved officer cash bonus funding of 138% of each named executive officer s target bonus. Actual bonus amounts for 2006 were then adjusted to reflect each officer s individual performance in 2006. For 2006, the individual assessment adjustments ranged from 120% to 140% of the actual bonus amounts.

More specifically, at the February 2007 meeting, the Corporate Governance Committee and then the Board reviewed Mr. Parkinson s performance against the goals approved by the Board at its February 2006 meeting. This review included a discussion of the performance evaluation that Mr. Parkinson submitted to the Corporate Governance Committee, the input of all members of the Board as to Mr. Parkinson s performance relative to his objectives, as well as a discussion among Mr. Parkinson and the Corporate Governance and Compensation Committees led by the lead director regarding Mr. Parkinson s performance. As a result of this review, the Board awarded Mr. Parkinson a cash bonus of $3,000,000 for his 2006 performance. This amount reflects cash bonus funding of 138% of Mr. Parkinson s target bonus as well as upward adjustments that were made by the Board to reflect Mr. Parkinson s individual performance. In January 2007, each of the other named executive officers completed an evaluation of his or her performance against the performance measurement objectives set by such officer and approved by Mr. Parkinson in February 2006. Mr. Parkinson then met with each of these named executive officers to review the evaluation and provide performance feedback to the officers. Based on these reviews and his own assessment of the officer s performance, Mr. Parkinson recommended adjustments to each officer s compensation at the February 2007 meeting of the Compensation Committee. Using the individual performance information that had been gathered in this process, the Compensation Committee then adjusted each officer s compensation upward to reflect his or her individual performance in 2006.

Long-Term Incentives

To further align management and shareholder interests and to continue to promote a pay-for-performance philosophy, Baxter maintains a Long-Term Incentive (LTI) plan for its senior executives, including the Chief Executive Officer and the other named executive officers. Awards are made pursuant to the LTI plan in March of each year. The awards granted to the named executive officers in March 2006 provided for a mix of stock options (70%) and restricted stock units (30%). The Committee weighted the mix of these awards to be consistent with the company s objective of providing compensation that is appropriately balanced from an at-risk compensation perspective. The competitive positioning of the LTI plan ranks at the 60th percentile of the long-term incentive opportunities provided to LTI participants counterparts in the comparable companies.

The awards granted to the named executive officers in March 2006 were calculated using a Total Shareholder Return (TSR) multiplier that could increase or decrease a participant s stock option and restricted stock unit targets, depending on Baxter s relative TSR performance in 2005. A participant s stock option and restricted stock unit targets were intended to equal the 60th percentile of the long-term incentive grant values provided by the comparable companies. The TSR multiplier measures the annual percentage change in Baxter s TSR compared to the TSR for the Standard & Poor s 500 Health Care Index. Based on this comparison, a participant s target LTI award in 2006 could increase up to a maximum of 150% or decrease to a minimum of 75% of target. Actual awards were based on a combination of the participant s target award, the TSR multiplier and the participant s individual performance. Baxter s strong relative TSR performance in 2005 drove increased LTI grants for 2006. For the period of January to December 2005, Baxter s TSR was 10.63% compared to a TSR of 6.46% for the Standard & Poor s 500 Health Care Index. In accordance with the TSR multiplier incorporated in the LTI Plan, the participants stock option and restricted stock unit targets for 2006 were adjusted to the maximum of 150% of target. Actual stock option and restricted stock unit awards for Baxter s named executive officers ranged from 80% to 120% of the adjusted targets due to individual performance. The stock option and restricted stock unit awards granted to Mr. Parkinson in March 2006 represented 80% of his adjusted targets, or 120% of his targets.

For 2007, the Committee amended the LTI plan design to provide for a mix of stock options (50%) and performance share units (50%). The Committee adjusted the mix of the stock options downward in order to reflect the market shift away from stock options in favor of full-value shares. The decision to replace restricted stock units with performance share units was made as a result of the Committee s interest in more effectively tying these equity awards to company performance on a prospective basis. The performance component of the performance share units will be measured based on Baxter s Growth in Shareholder Value (GSV). The payout resulting from the vesting of the performance share units will be based on Baxter s GSV versus the GSV of the healthcare peers included in Baxter s comparator group during the three-year performance period commencing with the year in which the performance share units are awarded. As discussed above, in October 2006, the Committee reviewed and revised the group of companies included in Baxter s comparator group. Accordingly, the healthcare companies that Baxter s GSV will be measured against differ from those companies against which Baxter s TSR was measured. Depending on how Baxter s GSV compares, the payout will range from 0% to 200% of the targeted number of performance share units awarded. In order to transition to the amended LTI plan design, the Committee supplemented the March 2007 LTI grants with one-time transitional awards of restricted stock units to the named executive officers (other than Mr. Parkinson) that will vest ratably over three years. The number of restricted stock units in this supplemental grant was determined by estimating the value of the additional equity awards that the officers would have received under the former LTI plan design as a result of Baxter s 2006 TSR performance relative to its comparator group and then dividing this value in half.

Perquisites

Baxter has historically provided its named executive officers with certain perquisites that the Committee believes are reasonable, competitive and consistent with Baxter s overall compensation philosophy. In 2006, these perquisites included: car and financial planning allowances, annual physical exams and home security systems. Named executive officers were also eligible to use the company aircraft for personal travel on a limited basis and only if such aircraft usage had been pre-approved by the Chief Executive Officer. Any such aircraft usage is reviewed annually by the Committee. Effective as of January 1, 2007, Baxter eliminated these perquisites, with the exception of annual physical exams and pre-approved use of the company aircraft for personal travel on a limited basis. This decision was made in response to changes in market practices as well as to address shareholder concerns surrounding the provision of perquisites.

Retirement and Other Benefits

Each of the named executive officers participates in Baxter s U.S. pension plan and supplemental pension plans. U.S. tax regulations limit the benefit available to highly compensated employees under qualified pensions plans. As a result, certain amounts of the named executive officers eligible compensation are disallowed as pensionable earnings under the pension plan. The supplemental pension plan was put in place to provide a benefit for the amount of eligible compensation that is disallowed under the pension plan. The supplemental pension plan is available to all employees whose benefit under the pension plan is limited by U.S. tax regulations. The company believes that maintaining the supplemental pension plan is appropriate in light of the level of responsibility carried by the plan participants and the retirement benefits provided by competitors. Pursuant to his employment agreement, if Mr. Parkinson remains employed for at least three years his pension benefit will be determined as if he had completed an additional two years of service, and if he remains employed for at least five years, his pension benefit will be determined as if he had completed an additional four years of service. The other named executive officers participate in the pension plan to the same extent and on the same terms as any other eligible Baxter employee. A more detailed discussion of these plans is provided under the caption Pension Benefits on page 22 of this Proxy Statement.

Each of the named executive officers is eligible to participate in Baxter s deferred compensation plan, the terms of which are more fully described under the caption Nonqualified Deferred Compensation on page 23 of this Proxy Statement. The company maintains a deferred compensation plan to further its objective of providing officers with compensation that is competitive with that provided by comparable companies.

In December 2006, each of the named executive officers (other than Mr. Parkinson) entered into a severance agreement with the company that provides for certain payments in the event of a Change in Control of the company. Mr. Parkinson did not enter into a severance agreement as his current employment agreement provides for payments to him in the event of the termination of his employment including as a result of a Change in Control. For a more detailed discussion of these agreements, please refer to information under the captions Employment Agreement with Chairman and Chief Executive Officer Termination of Employment and Potential Payments Upon Termination Following A Change-in-Control on pages 18 and 24 of this Proxy Statement, respectively.

Summary Compensation Table

The following table shows for the year ended December 31, 2006 the compensation provided by Baxter and its subsidiaries to its Chief Executive Officer, Chief Financial Officer and the three next most highly compensated executive officers. The five individuals identified in the Summary Compensation Table are referred to as the named executive officers throughout this Proxy Statement.

Name and Principal Position	Year	Salary ($)	Stock Awards ($)(1)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation ($)(3)	Change in Pension Value and Non-qualified Deferred Compensation Earnings ($)(4)	All Other Compensation ($)(5)	Total ($)
Robert L. Parkinson, Jr., Chairman and Chief Executive Officer	2006	$ 1,190,769	$ 1,526,450	$ 7,036,639	$ 3,000,000	$ 691,998	$ 136,187	$ 13,582,043
Robert M. Davis, Chief Financial Officer(6)	2006	359,331	146,800	386,154	540,960	22,647	40,641	1,496,533
Joy A. Amundson, President, BioScience	2006	508,053	586,894	1,423,160	773,214	86,035	78,118	3,455,474
Peter J. Arduini, President, Medication Delivery	2006	477,077	478,280	705,620	639,216	47,440	91,009	2,438,642
John J. Greisch, President, International(6)	2006	564,000	613,031	1,630,851	938,952	113,422	79,103	3,939,359

(1) Amounts shown in this column relate to restricted stock and restricted stock units granted under the company s Long-Term Incentive Plan (which we refer to as the LTI Plan) during 2006 and prior years. The amounts are valued based on the compensation cost recognized by the company during 2006 under the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (which we refer to as FAS 123-R). For further information on these awards, see the Grants of Plan-Based Awards table on page 17 of this Proxy Statement.

(2) Amounts shown in this column relate to stock options granted under the company s LTI Plan during 2006 and prior years. The amounts are valued based on the compensation cost recognized by the company during 2006 under FAS 123-R. See Note 7 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2006 (our Annual Report) for a discussion of the relevant assumptions used in calculating the compensation cost under FAS 123-R. For further information on these awards, see the Grants of Plan-Based Awards table on page 17 of this Proxy Statement.